Caprin Asset Management, L.L.C.

1802 BAYBERRY COURT, SUITE 202, RICHMOND, VA 23226
804.648.3333
WWW.CAPRINBONDS.COM

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QE2—Onward and Upward

As the Fed surveys the evolving economic landscape, policymakers seem intent on following through to completion the Quantitative Easing program initiated in the fourth quarter of 2010 and scheduled to last through June 2011. In testimony before Congress, Chairman Bernanke echoed previous statements regarding no near-term concerns over inflation and the willingness to act swiftly to remove accommodation if inflationary concerns become more immediate. It appears that the Fed, operating within its dual mandates of maximum employment and price stability (*see Figure 1*), will continue to favor healing our domestic workforce with hopes that the excess accommodation will not create inflation. Renewed equity market enthusiasm and continued commodity price pressures provide reasonable evidence that old habits are hard to break or to control.

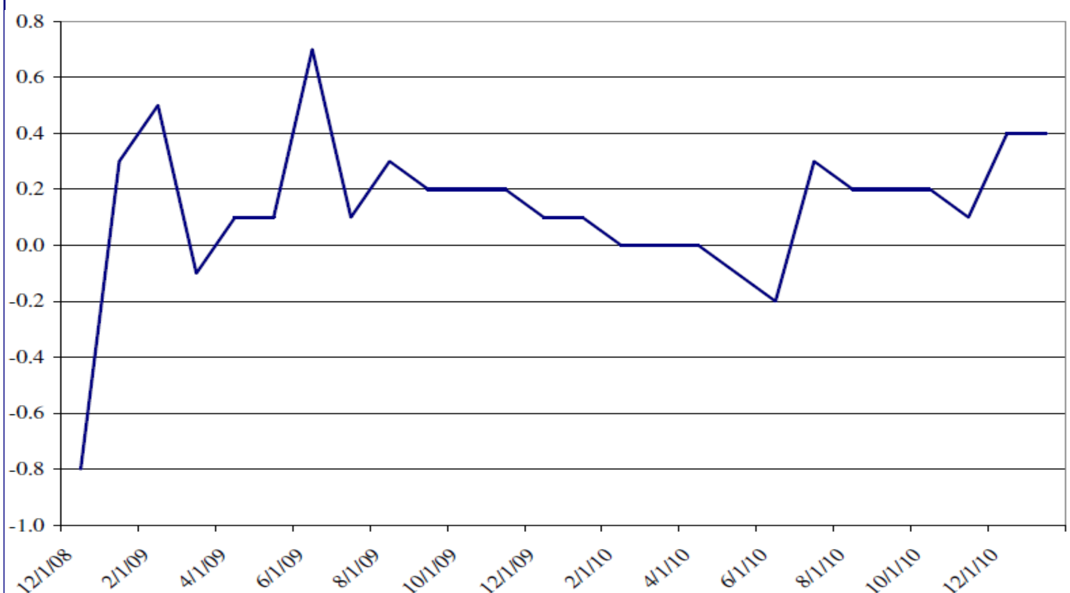

Figure 1. *Consumer Price Index since 12/31/08* Source: Bloomberg

Muni Credit Fears Persist

Our January newsletter and December credit commentary conveyed our thoughts about the credit fears dominating muni market headlines at the close of last year. The exaggerated reports fueled a muni market selloff beginning back in November, producing fourteen consecutive weeks of mutual fund outflows through the week ending February 16th. Total redemptions have now totaled over $25 billion, according to U.S. Lipper Fund Flows. These massive fund outflows forced widespread bond sales by the affected funds, driving down muni bond prices and raising yields. At the end of January 2011, yields on 10-year AAA muni bonds were 1.21% higher than at the end of August 2010, according to Bloomberg Fair Value G.O. AAA Yields. They currently remain in the vicinity of their highest level in almost two years. Caprin believes that the recent selloff presents muni investors with an attractive opportunity, but our strategies retain the requisite caution and discipline.

Highlights:

- Fed maintains 0-0.25% Fed Funds rate
- The Fed continues with QE2 program, inflation still creating a minimal threat
- Lack of new muni issuance not meeting current demand, creating a strengthening bias over the short-term
- Caprin repositioning intermediate portfolios to a neutral duration target; laddered structure

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Print and broadcast media have engaged a running point-counterpoint debate over the high-profile and unprecedented predictions of widespread muni defaults. We applaud those professionals seeking to set the record straight about the true size and scope of the problem at hand. Fear in the tax-exempt market is not beneficial for those investors seeking capital preservation in their fixed income allocations. Transparency of the difficult structural challenges that state budgets are facing is absolutely necessary if there is to be resolution of the excesses that have accumulated. Unsustainable pension and benefit plans, wasteful spending, and generous public services will be scrutinized as officials grapple with difficult choices. The severity of the recession, the duration and magnitude of high unemployment, and the feeble recovery after the real estate crash have reduced governmental revenues, and a return to the 'golden days' is unlikely. As we write this newsletter, intense debates and demonstrations about pension, public service, and education cuts are becoming more prominent around the country.

Caprin recognizes that defaults may occur among weaker credits, especially debt issued against specific, non-essential projects. It is important to note that Caprin does not subscribe to the more dire default predictions totaling hundreds of billions of dollars. We believe the exceedingly negative rhetoric is overdone. With that said, we remain committed to assessing the risks and nuances associated with each issuer that we seek to purchase for and hold in client portfolios.

Caprin Strategy

Following the November 2010 Fed meeting, Caprin felt potential headwinds would pressure the municipal bond market and we elected to let portfolios drift toward to a shorter average maturity and duration structure. After months of mutual fund outflows driving prices down and yields up, we believe the muni market is potentially oversold and currently offers prudent investors significant value. This environment has generated a strategy change and Caprin portfolios will be repositioned to a neutral duration and maturity structure.

The supply of desirable bonds remains a hurdle in the muni market as new issuance volume remains well below historical levels – down roughly 65% in 2011 YTD from the same period last year. The supply deficiency has created excess demand (i.e. higher prices) and is the primary driver of Caprin's constructive view of the market over the near term. However, the supply outlook also presents an elevated challenge for repositioning portfolios, especially for our state-specific muni clients. Risk management is a central theme of Caprin's investment process — we want to avoid concentrating state-specific holdings in a limited number of names or lowering our quality standards just to remain in-state. Therefore, state-specific clients may see additional positions from issuers outside of their state of domicile. We believe that the minor tax impact is outweighed by the need to remain invested, diversified, and within our credit risk comfort zone.

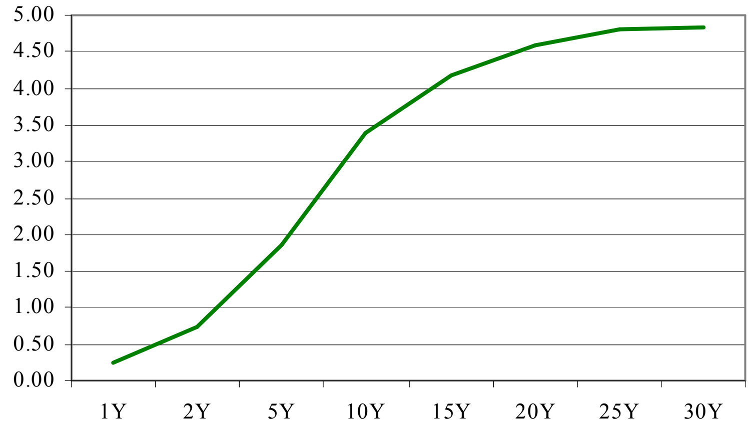

***Figure 2**. U.S. Muni G.O. AAA Yields as of 02/22/11* Source: Bloomberg

Coincident with the neutral duration target, portfolio structures will become more "laddered" with maturities relatively evenly distributed over the maturity horizon. We will limit new purchases to a fifteen-year maximum maturity because the declining incremental yield beyond that point does not offset the additional price risk assumed. We will decrease our holdings maturing during the next thirteen months on the expectations that the Fed will not meaningfully raise rates in 2011 and that short-end yields will remain near all-time lows. Cash raised will be directed to achieving our target portfolio structure while seeking yield opportunities in favorable names and sectors. Liquidity and quality remain high on our priority list as the interest rate cycle and municipal fiscal solutions continue to unfold.